Alternative Renewable
Energy Solutions Inc.
125 Steamboat Ave
North Kingstown RI 02852
PH: 401.667.7226
FX: 401.294.0010
www.callares.com

Clean Renewable Energy Bonds (CREBs)

Last DSIRE Review: 02/19/2009

Incentive Type:	Federal Loan Program
Eligible Renewable/Other Technologies:	Solar Thermal Electric, Photovoltaics, Landfill Gas, Wind, Biomass, Hydroelectric, Geothermal Electric, Municipal Solid Waste, Hydrokinetic Power, Anaerobic Digestion, Tidal Energy, Wave Energy, Ocean Thermal
Applicable Sectors:	Local Government, State Government, Tribal Government, Municipal Utility, Rural Electric Cooperative
Amount:	Varies
Website:	http://www.irs.gov/irb/2007-14_IRB/ar17.html
Authority 1:	26 USC § 54
Effective Date:	08/08/2005
Expiration Date:	12/31/2009
Authority 2:	H.R. 1424: Div. B, Sec. 107 (The Energy Improvement and Extension Act of 2008)
Date Enacted:	10/03/2008
Effective Date:	10/03/2008
Authority 3:	H.R. 1: Div. B, Sec. 1111 (American Recovery and Reinvestment Act of 2009)
Date Enacted:	02/17/2009
Effective Date:	02/17/2009

Summary:

Note: The Energy Improvement and Extension Act of 2008 allocated $800 million for new Clean Renewable Energy Bonds (CREBs). In February 2009, the American Recovery and Reinvestment Act of 2009 allocated an additional $1.6 billion for CREBs. The Energy Improvement and Extension Act of 2008 also extended the deadline for previously reserved allocations until December 31, 2009, and addressed several weaknesses in the existing law that previously limited the usefulness of the program for some projects. A separate section of the law extended CREBs eligibility to marine energy and hydrokinetic power projects. The IRS has not yet announced that it is accepting applications for the new

allocations made in 2008 and 2009, and it has not issued official guidance detailing how the program will operate. Until such official guidance is issued, it remains to be seen if the new program will operate exactly as described below.

Clean renewable energy bonds (CREBs) may be used by certain entities -- primarily in the public sector -- to finance renewable energy projects. The list of qualifying technologies is generally the same as that used for the federal renewable energy production tax credit (PTC). CREBs may be issued by electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments or any political subdivision thereof), and by certain lenders. CREBs are issued, theoretically, with a 0% interest rate.* The borrower pays back only the principal of the bond, and the bondholder receives federal tax credits in lieu of the traditional bond interest.

Participation in the program is limited by the volume of bonds allocated by Congress for the program. Participants must first apply to the Internal Revenue Service (IRS) for a CREBs allocation, and past allocations have also included an expiration date by which the bonds had to be issued. The current allocation is $800 million, but there does not appear to be a time frame for issuing the bonds. (See "History" section below for information on previous allocations.) Public power providers, governmental bodies, and electric cooperatives are each reserved an equal share (33.3%) of the most recent allocation. The tax credit rate is set daily by the U.S. Treasury Department. Under past allocations, the credit could be taken quarterly on a dollar-for-dollar basis to offset the tax liability of the bondholder. However, under the new allocation, the credit has been reduced to 70% of what it would have been otherwise.

CREBs differ from traditional tax-exempt bonds in that the tax credits issued through CREBs are treated as taxable income for the bondholder. The tax credit may be taken each year the bondholder has a tax liability as long as the credit amount does not exceed the limits established by the federal < of Act Policy>. CREBs rates are available here.

History

The federal *Energy Policy Act of 2005* (EPAct 2005) established Clean Energy Renewable Bonds (CREBs) as a financing mechanism for public sector renewable energy projects. This legislation originally allocated $800 million of tax credit bonds to be issued between January 1, 2006, and December 31, 2007. Following the enactment of the federal *Tax Relief and Health Care Act of 2006*, the IRS made an additional $400 million in CREBs financing available for 2008 through Notice 2007-26.

In November 2006, the IRS announced that the original $800 million allocation had been reserved for a total of 610 projects. The additional $400 million (plus surrendered volume from the previous allocation) was allocated to 312 projects in February 2008. Of the $1.2 billion total of tax-credit bond volume cap allocated to fund renewable-energy projects, state and local government borrowers were limited to $750 million of the volume cap, with the rest reserved for qualified mutual or cooperative electric companies.

For more information on CREBs, contact Zoran Stojanovic or Timothy Jones of the IRS Office of Associate Chief Counsel at (202) 622-3980.

**In practice, for a variety of reasons, bond issuers typically must issue the bonds at a discount or make supplemental interest payments in order to find a buyer.*

Contact:

Public Information - IRS
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224
Phone: (800) 829-1040
Web site: http://www.irs.gov
